

REFORM THE UNITED STATES POSTAL SERVICE

The Government Accountability Office has featured the United States Postal Service's (USPS) financial viability in its annual *High-Risk List* report every year since 2009.¹ Congress must reform the USPS to address long-running structural and financial challenges that leave taxpayers on the hook for billions of dollars in liabilities.

BACKGROUND

The USPS lost a total of \$78 billion between 2007 and 2019.² In fiscal year (FY) 2019 alone, USPS experienced a net loss of \$8.8 billion by spending nearly \$80 billion, while only collecting \$71.2 billion in revenue.³ With no improvement of the USPS financial condition in sight, the former Postmaster General notified Congress, “the Postal Service’s business model is broken and will only produce widening losses in the coming years absent dramatic changes.”⁴

The USPS operates at a multi-billion-dollar loss every year. As Table I shows below, USPS unfunded liabilities and debt have grown to \$161 billion, representing twice the amount of its annual revenues. In April 2019, former Postmaster General Brennan testified that “absent legislative and regulatory reform...[USPS will run] out of cash in 2024.”⁵

Several factors contribute to the ongoing financial deterioration of the USPS:

- Declining volume of First-Class and other mail categories;
- Inflexible product pricing;
- Substantial personnel costs in the form of compensation and benefits; and
- Broad universal service obligation.

Currently, the USPS operates under a statutory mandate to offer nationwide service at affordable rates.⁶ Such mandates also prohibit the USPS from closing post offices which operate at a deficit.⁷ Many of the connectivity considerations that lead to the creation of the USPS’s universal service obligation (USO) may not hold sway in an era increasingly dominated by digital communication.

In FY 2018, “labor costs accounted for 76 percent of the USPS’s overall operating costs.”⁸ As a 2017 comparison, “total per-employee cost at the USPS was \$85,800, compared to \$76,200 and \$53,900 at UPS and FedEx, respectively.”⁹ USPS per-employee costs were significantly higher than the private sector companies with which it most directly competes.

Quick Take

The USPS operates at a multi-billion loss every year. In FY 2019 alone, the USPS averaged a net loss of \$8.8 billion.

Congress should consider the numerous recommendations from the Task Force on the United States Postal System.

Generally, federal law caps the USPS prices on market-dominant mail at the rate of change in the consumer price index for all urban consumers (CPI-U).¹⁰ Additionally, the USPS must also consult the Postal Regulatory Commission (PRC) to change service standards. These statutory restrictions hinder the USPS's ability to respond quickly to market changes.

Historically, USPS's "mailbox monopoly" and monopoly on most letter mail enabled the USPS to cover any losses associated with the USO. While USPS package volumes and revenue are increasing due to increases in e-commerce, they are not enough to offset declines in mail revenues. More importantly, the USPS may have a distortionary impact on the private parcel shipping marketplace where its package shipments benefit indirectly from infrastructure and personnel on the mail side of the USPS operation.

On April 12, 2018, President Donald Trump signed Executive Order 13829 to establish the Task Force on the United States Postal System (USPS Task Force) to evaluate the operations and finances of the USPS and develop reform recommendations.¹¹

CONSTITUTIONAL AUTHORITY AND REPUBLICAN PRINCIPLES

The Constitution empowers Congress to "establish Post Offices and post Roads."¹² The USPS should be modernized to reflect current national service needs, operate within its generated revenues, and minimize any distortionary impact on the private shipping marketplace.

POLICY SOLUTIONS

The USPS Task Force offered several recommendations for Congress:¹³

- Align USPS employee rights with other federal employee rights by eliminating collective bargaining overcompensation for USPS employees;
- Pursue reforms to USPS employee wages consistent with those proposed for the broader federal workforce in the president's Management Agenda;
- Explore and implement new business lines that generate revenue and that present no balance sheet risk to the USPS;
- Institute a new policy mandate for management that sets organizational direction and financial targets, which align with a sustainable business model and establish an enforcement mechanism if the existing Board is unable to meet these targets; and
- Pursue reform of the Federal Employee Retirement System that would increase employee contributions and move toward a defined contribution system.

Additionally, Congress should consider re-evaluating the USO to determine what the modern essential services for the USPS should be as the nation increasingly relies on digital avenues as the lowest-cost form of communication.

Table 1: Selected U.S. Postal Service (USPS) Liabilities and Outstanding Debt (Dollars in billions)

Fiscal Year	Selected USPS liabilities (included on USPS balance sheet)			Funded Status of Retiree Health and Pension Funds (not fully included on USPS balance sheet)			Totals			
	Outstanding debt	Workers' compensation liabilities	Other liabilities	Funded status for retiree health benefits (unfunded)	Funded Status for CSRS (unfunded)	Funded Status for FERS (unfunded)	Total USPS balance sheet assets	Total USPS liabilities, debt, and unfunded obligations	Total USPS revenue	Unfunded obligations, liabilities, and debt as percentage of revenue
2007	(4.2)	(7.8)	(12.7)	(55.0)	(3.1)	8.4	25.8	(74.3)	75.0	99
2008	(7.2)	(8.0)	(12.5)	(53.5)	(9.0)	6.5	26.0	(83.7)	75.0	112
2009	(10.2)	(10.1)	(13.2)	(52.0)	(7.3)	6.9	28.1	(85.9)	68.1	126
2010	(12.0)	(12.6)	(13.6)	(48.6)	1.6	10.9	24.3	(74.3)	67.1	111
2011	(13.0)	(15.1)	(14.2)	(46.2)	(17.8)	2.6	23.4	(103.7)	65.7	158
2012	(15.0)	(17.6)	(13.7)	(47.8)	(18.8)	0.9	22.6	(112.1)	65.2	172
2013	(15.0)	(17.2)	(12.5)	(48.3)	(17.8)	(0.1)	21.6	(110.9)	67.3	165
2014	(15.0)	(18.4)	(12.5)	(48.9)	(19.4)	(3.6)	23.0	(117.8)	67.9	174
2015	(15.0)	(18.8)	(12.5)	(54.8)	(16.7)	(3.8)	24.0	(121.6)	69.0	176
2016	(15.0)	(20.0)	(11.8)	(52.1)	(26.9)	(15.3)	25.2	(141.1)	71.5	197
2017	(15.0)	(17.9)	(11.9)	(62.2)	(24.2)	(17.1)	27.4	(148.4)	69.7	213
2018	(13.2)	(16.4)	(11.5)	(66.5)	(27.9)	(19.4)	26.7	(154.9)	70.8	219
2019	(11.0)	(18.5)	(12.0)	(69.4)	(29.0)	(20.9)	25.6	(160.9)	71.3	226

Source: U.S. Postal Service (USPS) Form 10-K Statements.

Government Accountability Office, February 2020¹⁴

Please contact Cameron Smith or Kelsey Wall with the Republican Policy Committee at (202) 225-4921 with any questions.

¹ U.S. Gov't Accountability Off., GAO-19-157SP, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High Risk Areas 99* (2019), <https://www.gao.gov/assets/700/697245.pdf>.

² U.S. Postal Service, *Ready-Now → Future-Ready: The U.S. Postal Service Five-Year Strategic Plan FY2020-FY2024* 9 (2020) <https://about.usps.com/strategic-planning/five-year-strategic-plan-2020-2024.pdf>.

³ U.S. Postal Service, Form 10-K Annual Report (2019), <https://about.usps.com/what/financials/10k-reports/fy2019.pdf> and U.S. Postal Service, *Newsroom: U.S. Postal Service Reports Fiscal Year 2019 Results*, Nov. 19, 2019, available at <https://about.usps.com/newsroom/national-releases/2019/1114-usps-reports-fiscal-year-2019-results.htm>

⁴ United States Postal Service, *FY2018 Annual Report to Congress* (2018), <https://about.usps.com/who-we-are/financials/annualreports/fy2018.pdf>.

⁵ *The Financial Condition of the Postal Service: Hearing Before the H. Comm. on Oversight and Reform*, 116th Cong. 40-41 (2019) (oral statement of Postmaster Gen. and Chief Executive Officer Megan J. Brennan).

⁶ 39 U.S.C. §§ 403(b) and 404(c).

⁷ 39 U.S.C. § 101(b).

⁸ Task Force on the United States Postal System, U.S. Dept. of the Treasury, *United States Postal Service: A Sustainable Path Forward* (2018), https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Forward_report_12-04-2018.pdf.

⁹ *Id.*

¹⁰ 39 U.S.C. § 3622(d)(2)(A)

¹¹ Exec. Order No. 13,829, 83 Fed. Reg. 17281 (Apr. 12, 2018).

¹² U.S. Const. art. I, § 8, cl. 7.

¹³ Task Force on the United States Postal System, *supra*, note 8.

¹⁴ Prepared by the Gov't Accountability Off. from U.S. Postal Service Form 10-K Statements for House Republican staff briefing on February 4, 2020.